INTERNATIONAL WHEAT AGREEMENT

HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

ON

TREATY DOCUMENT 97-9—TWO PROTOCOLS FOR THE EXTENSION OF THE INTERNATIONAL WHEAT AGREEMENT

NOVEMBER 24, 1981

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CONTENTS

	Page
Hearing day:	
November 24, 1981	1
Statement of—	
Calingaert, Michael, Deputy Assistant Secretary of State for International Resources and Food Policy	2
Gilmore, Richard, president, Gilmore International Consulting, Washington, D.C.	13
Mayer, Leo, Associate Administrator, Foreign Agricultural Service, Department of Agriculture	5
Schwensen, Carl F., executive vice president, National Association of Wheat Growers, Washington, D.C.	11
Insertions for the record:	
Prepared statement of Michael Calingaert	3
Prepared statement of Leo Mayer	6
Legislative memorandum from Robert J. Mullins, director of Legislative Services, National Farmers Union	9
Letter to Senator Percy from the National Association of Wheat Growers, dated November 24, 1981, in support of the International Wheat Agreement	12
Prepared statement of Richard Gilmore	14

INTERNATIONAL WHEAT AGREEMENT

TUESDAY, NOVEMBER 24, 1981

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C.

The committee met, pursuant to call, 2:15 p.m., in room 4221, Dirksen Senate Office Building, Hon. Larry Pressler presiding.

Present: Senator Pressler.

Senator PRESSLER. This afternoon, the Committee on Foreign Relations will hear testimony on a proposed 20-year extension of the Food Aid Convention and the Wheat Trade Convention. These two conventions are commonly referred to as the International Wheat Agreement.

While the two conventions are not particularly controversial, and the extension involved makes no changes in the current conventions, I believe this is an opportune time to examine some general questions involving the international wheat market, and the administration's position on such issues.

U.S. wheat exports are more important than ever today, both to the importing countries and to the U.S. economy. Overseas, millions of people would face food lines and potential social disruption were it not for the enormous productive capacity of the American farmers.

Domestically, one-third of all U.S. farm acreage is cultivated for export crops. Earnings from wheat and other farm exports are particularly needed at a time when we must continue to import large quantities of high-priced oil, and many of our industries are under increasing competition from imports.

Given the importance of our wheat exports, I think it is appropriate to ask both the administration and representatives of the private sector whether or not our current policy makes sense, and whether any new measures are needed to assure a stable and flourishing grain trade. In that context, I am obviously interested in the role the International Wheat Agreement does and can play.

I would like to welcome the administration witnesses first:

Michael Calingaert, Deputy Assistant Secretary for International Resources and Food Policy of the Department of State, and Mr. Leo Mayer, Associate Administrator of the Foreign Agricultural Service, Department of Agriculture.

I shall first call on Mr. Calingaert.

STATEMENT OF MICHAEL CALINGAERT, DEPUTY ASSISTANT SECRETARY OF STATE FOR INTERNATIONAL RESOURCES AND FOOD POLICY

Mr. CALINGAERT. Thank you, Mr. Chairman.

I do have a statement which I would like to submit for the record, and with your permission I would like to summarize the main points in that statement.

Senator PRESSLER. Without objection.

Mr. CALINGAERT. I am pleased to speak before the committee today on the protocols extending the International Wheat Agreement from July 1, 1981, through June 30, 1983. The administration is requesting the advice and consent of the Senate to ratification of these protocols.

As you mentioned, the International Wheat Agreement consists of two conventions, the Wheat Trade Convention of 1971, and the Food Aid Convention of 1980. The United States was a party to both of those conventions. In June of this year, at the International Wheat Council, the United States gave a declaration of provisional application for the protocols extending the Wheat Trade and Food Aid Conventions in order to be able to continue to participate in the ongoing activities of the Council.

The extension of the Wheat Trade Convention will maintain the framework for international cooperation in wheat trade matters. The extension of the Food Aid Convention will continue the commitment of the adhering parties to provide minimum annual levels of food aid totaling 7.6 million tons.

There are two bodies related to these two conventions. On wheat trade, the International Wheat Council, consisting of 58 wheat exporting and importing countries, is a unique forum for international consultations on a range of important issues related to wheat. The Food Aid Committee, which is the governing body of the Food Aid Convention, is made up of donor countries which examine world food aid needs, the contributions by donor countries and related food aid matters.

The present Wheat Trade Convention is a consultative agreement, containing no economic provisions on wheat prices or stock levels. There were negotiations conducted under UNCTAD auspices in 1978 and 1979 for a commodity agreement. These failed on three key issues: Buffer stock size, price bands for stock acquisition and release, and special provisions for developing countries.

Following that effort, a special committee was set up in the International Wheat Council to try to work out a less rigid approach for a new Wheat Trade Convention that would still meet international desires for enhanced world food security through a grain reserve system.

An approach was developed in the Council under which members would volunteer the size of their proposed grain reserves, which would then become binding. In times of rapidly declining or escalating prices, the Council could decide to meet and, if appropriate, adopt consensus recommendations on stock acquisition or release. The proposal does not contain any minimum or maximum prices.

However, this proposal contains specific provisions unacceptable to the United States, such as preferential access to reserves for the developing countries and other Council members, and provisions for financial assistance to the developing countries to meet reserve commitments. At the most recent session of the Council, the United States announced that it would not proceed with the negotiations based on that proposal. Australia and Canada also expressed reservations, while the other major grain exporter, Argentina, took a neutral position.

The United States is prepared to consider other alternative approaches to a new Wheat Trade Convention which take account of the merits of national, market-oriented systems, such as our farmer-owned reserves. In the meantime, we have urged other nations, particularly the major exporting and developed importing countries, to establish grain reserve policies without waiting for international agreement on a possible new Wheat Trade Convention.

Negotiations on a new Food Aid Convention were successfully concluded in 1980. The new convention provides for increased food aid pledges and more equitable burden sharing among donor countries. The total pledges now amount to 7.6 million tons, compared to 4.2 million tons under the earlier 1971 convention. The U.S. pledge is for 4.47 million tons, which represents 59 percent of the total. We intend to meet our pledge entirely with our current Public Law 480 program.

We believe that food aid can play an important role in developing countries as they strive to develop their own agricultural production. This is the central objective of the self-help measures in our Public Law 480 title I and title III agreements. There will always be a need for some emergency food aid to assist countries to overcome unexpected emergencies such as adverse weather and natural disasters. Refugees also require emergency food aid, as we have seen in such countries as Somalia, Pakistan, and Thailand/Kampuchea. U.S. participation in the Food Aid Convention is in keeping with our lead role in addressing world food security issues.

In view of the benefits of the International Wheat Agreement to the United States, the administration hopes that the Senate will give prompt and favorable attention to the protocols to extend the International Wheat Agreement and the Food Aid Convention through the middle of 1983.

Thank you.

[Mr. Calingaert's prepared statement follows:]

PREPARED STATEMENT OF MICHAEL CALINGAERT

I am pleased to be able to speak before the Committee on the Protocols extending the International Wheat Agreement (IWA) for the period July 1, 1981 through June 30, 1983. The Administration is requesting the advice and consent of the Senate to the ratification of these protocols. The International Wheat Agreement consists of the Wheat Trade Convention of 1971 and the Food Aid Convention of 1980. The United States is a party to both of those Conventions.

The International Wheat Council is the international organ for implementing the IWA. On June 23 of this year the United States gave a declaration of provisional application for the protocols extending the Wheat Trade and Food Aid Conventions in order to be able to continue to participate in the on-going activities of the Council.

The extension of the Wheat Trade Convention will maintain the framework for international cooperation on wheat trade matters. The extension of the Food Aid Convention will continue the commitment of the adhering parties to provide minimum annual levels of food aid totalling 7.6 million tons.

The International Wheat Council, whose membership consists of 58 wheat exporting and importing nations, is a unique forum for international consultations on a range of important issues including wheat production, trade volume, prices, shipping costs, and projections of world supply and demand. The Food Aid Committee, which is the governing body of the Food Aid Convention, is a useful multilateral body in which donor countries examine world food aid needs, the contributions by donor countries and related food aid matters.

In crop year 1980/81, the United States exported 42 million tons of wheat, 65 percent of total production. As the largest wheat-exporting nation in the world, the United States has a strong interest in the Council and its work. The Council has built up impressive expertise over the years and is now considered a leading authority on international wheat trade and forecasting. The Council's price indicator, based on a basket of wheat prices, is a valuable tool for following international wheat price trends.

The present Wheat Trade Convention is a consultative agreement, containing no economic provisions on wheat prices or stock levels. Negotiations on a new Wheat Trade Convention along the lines of a classic commodity agreement were held in 1978/79 under UNCTAD auspices, but failed on three key issues: buffer stock size, price bands for stock acquisition and release and special provisions for developing countries (LDCs). Changing market conditions soon made it apparent that the kind of agreement sought would have proved unworkable anyway.

Following the UNCTAD effort, the International Wheat Council established a special committee to develop a less-rigid approach to a new Wheat Trade Convention that would still meet international desires for enhanced world food security through a grain reserve system. Under the approach the Council developed, members would volunteer the size of their proposed grain reserves, which would then become binding. In times of rapidly declining or escalating prices the Council could decide to meet, and, if appropriate, adopt consensus recommendations on stock acquisition or release. There are no minimum or maximum prices under this proposal.

The Council draft, however, contains specific provisions unacceptable to the United States, such as preferential access to reserves for LDCs and other Council members, and provisions for financial assistance to LDCs to meet reserves commitments. We will not limit access to our free market for grain, nor do we want a new Wheat Trade Convention to be a mechanism for transferring resources to LDCs. At the most recent session of the Council, the United States told the other members that we would not proceed with negotiations on a new Wheat Trade Convention based on the Council's current proposal. Australia and Canada also expressed reservations, while Argentina, the other major grain exporter, was neutral. The European Community, Japan, and other major importers generally favored the proposed draft Convention.

The United States is prepared to consider alternative approaches to a new Wheat Trade Convention which take account of the merits of national, market-oriented systems, such as our farmer-owned reserve. In the meantime we have urged other nations, particularly major exporters and developed importers, to establish grain reserve policies without waiting for international agreement on a new Wheat Trade Convention.

The negotiations on a new Food Aid Convention were successfully concluded in 1980. The Convention meets the U.S. objectives of increased food aid pledges and more equitable burden sharing among donors. Pledges under the new Convention total 7.6 million tons, compared to 4.2 million tons under the 1971 Convention. The U.S. pledge of 4.47 million tons represents 59 percent of the total, an amount consistent with our percentage of actual world food aid and our share of world grain trade. We intend to meet our pledge entirely with our current Public Law 480 program—Titles I, II, and III. Our September budget request for fiscal year 1982 is expected to fund about five million tons of cereals food aid, exceeding our minimum pledge under the Food Aid Convention. Only once in the 25-year history of our Public Law 480 program did we provide less than the level to which we are now pledged.

We believe that food aid can play an important role in LDCs as they strive to develop their own agricultural production. This is the central objective of the

self-help measures in our Public Law 480 Title I and Title III Agreements. There will always be a need for some emergency food aid to assist countries to overcome unexpected emergencies such as adverse weather, and natural disasters. Refugees also require emergency food aid, as we have seen in Somalia, Pakistan, and Thailand/Kampuchea. U.S. participation in the Food Aid Convention is in keeping with our lead role in addressing world food security issues.

In view of the benefits of the International Wheat Agreement to the United States, the Administration hopes that the Senate will give prompt and favorable attention to the Protocols to extend the Wheat Trade Convention and the Food Aid Convention through 1983.

Senator PRESSLER. Thank you very much. I would now like to welcome Mr. Leo Mayer, Associate Administrator of the Foreign Agricultural Service of the Department of Agriculture.

The Foreign Agricultural Service, as I understand it, in many countries works in close cooperation with the private groups cooperative groups.

Mr. Mayer, please go ahead.

STATEMENT OF LEO MAYER, ASSOCIATE ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, DEPARTMENT OF AGRICULTURE

Mr. MAYER. Thank you, Mr. Chairman. It is nice to be here.

I happen to come from the great State of Kansas, the Wheat State, producing 20 percent of the crop of wheat in this country, so I have, a special interest in this particular agreement.

I would like to make a brief statement, and then submit the complete statement for the record, about the need for the extension of the International Wheat Agreement and the status of the negotiations.

Since it was first negotiated in 1971, this agreement has enjoyed the support of U.S. producers and traders. They have found it a useful instrument for furthering discussion of international wheat trade issues, and it also provides a unique opportunity for experts from the various countries to come together and to discuss and assess the world out-look for wheat.

Because the 1971 agreement has been regarded as a useful instrument by member countries, it was extended in 1974, 1975, 1976, 1979, and 1980, and all of these extensions have been ratified by the U.S. Senate.

As was mentioned, the current extension is for 2 years. During this time, the Wheat Trade Conventions will be further examined for possible modifications, particularly in regard to the establishment of a grain reserve to enhance world food security.

During this period of examination we, the United States, will press for a system of individually held country reserves which would operate in response to price signals from the world market.

The United States is proud of its contribution to world food security, and the leadership role that it has played. Our agricultural policies are directed at expanding agricultural production, and exports and our open market system gives foreign buyers equal access to U.S. grain on a par with domestic users.

The U.S. marketing system is responsive to rapidly changing market conditions. Under this system, farmers make the major production and marketing decisions, including entry into and release from farmer-owned and controlled grain reserve.

The United States is alone in having developed a conscious reserves policy designed to meet both domestic objectives and international needs.

Through bilateral and multilateral assistance programs, the United States encourages increased food production in food deficit low income countries.

So for all these different reasons, we are very proud of what the United States has contributed to world food security.

The United States believes that individual country reserve systems which operate in response to price signals from the world wheat market; that is, releasing supplies when the world crop is short and building supplies and reserves when the supplies are plentiful, that that type of system is preferable to an internationally coordinated program of reserves.

We will urge the International Wheat Council to explore alternative approaches that take into account the merits of a market oriented system.

In the meantime, there are good benefits, for both ourselves and the community of trading nations, from having a International Wheat Convention. Even if nothing better or more comprehensive is found to replace it, the present Wheat Trade Convention is well-worth having.

It provides an internationally recognized forum for experts on wheat matters from importing and exporting nations to periodically meet to discuss the outlook for the world wheat situation. The publications resulting from such meetings are internationally recognized for their competence on wheat matters.

Additionally, the Wheat Trade Convention provides a most useful forum for discussing possible problems concerning the wheat economy.

We support the ratification, and we appreciate the opportunity to testify here today.

Thank you, Mr. Chairman.

[Mr. Mayer's prepared statement follows:]

PREPARED STATEMENT OF LEO MAYER

I appreciate the opportunity to meet with you today regarding the ratification of the 1971 International Wheat Agreement as Extended. I would like to make a brief statement about the need for extension of the IWA, and the status of negotiations for a new IWA.

The 1971 International Wheat Agreement includes both a Wheat Trade Convention and a Food Aid Convention. The Wheat Trade Convention (WTC) provides for the establishment of the International Wheat Council as a forum for consultation and exchange of information. The WTC includes no obligatory provisions designed to regulate world wheat trade or to stabilize world wheat prices. The Food Aid Convention establishes obligations for the minimum annual amounts of food aid provided by donor countries.

Since it was first negotiated in 1971, this agreement has enjoyed the support of U.S. producers and traders. It is a useful instrument for furthering international cooperation in wheat trade issues and provides a unique opportunity for experts on wheat from governments and the private sector to meet and assess the world wheat economy.

The Food Aid Convention provides that wealthy countries will share responsibility for food aid to developing countries. The minimum U.S. commitment of 4.47 million metric tons of wheat, coarse grains, and rice under the 1980 Food Aid Convention is met through the use of our Public Law 480 program.

Because the 1971 IWA has been regarded as a useful agreement by the United States and other member countries, it was extended in 1974, 1975, 1976, 1979, and 1980. These extensions were ratified by the U.S. Senate.

The current extension is for 2 years. During this time the Wheat Trade Convention will be further examined for possible modification, particularly in regards to the establishment of a grain reserve system to enhance world food security. During this examination, we will press for a system of individually held country reserves which would operate in response to price signals from the world market.

The United States is proud of its contributions to world food security and the leadership role it has played.

(a) Our agricultural policies are directed at expanding agricultural production and exports and our open market system gives foreign buyers equal access to U.S. grain on a par with domestic users.

(b) The United States marketing system is responsive to rapidly changing world market conditions. Under this system, farmers make the major production and marketing decisions, including entry into and release from farmer owned and controlled reserves.

(c) The United States is alone in having developed a conscious reserves policy designed to meet both domestic objectives and international needs.

(d) Through bilateral and multilateral assistance programs, the United States encourages increased food production in food deficit low income countries.

The United States believes that individual country reserve systems which operate in response to price signals from the world wheat market, releasing reserves when the supply is short and holding reserves when the supplies are plentiful, are preferable to internationally coordinated programs. The United States will urge the International Wheat Council to explore alternative approaches that take into account the merits of market-oriented systems.

In the meantime, there are good benefits, for both ourselves and the community of trading nations in general, from having a Wheat Trade Convention. Even if nothing better or more comprehensive is found to replace it, the present Wheat Trade Convention is well worth having. It provides an internationally recognized forum where experts on wheat matters from importing and exporting nations periodically meet to discuss the outlook for the world wheat situation. The publications resulting from such meetings are internationally recognized for their competence on wheat matters. Additionally, the Wheat Trade Convention provides a most useful forum for discussing possible problems concerning the world wheat economy.

We support the ratification.

Senator PRESSLER. Thank you.

The International Wheat Trade Convention, as I understand it, includes 54 countries plus the European Community. It is purely a consultative arrangement without any economic provisions for price stabilization.

It does provide for an International Wheat Council, an administrative body established in 1949 to conduct an annual review of the world wheat situation in order to provide member governments with information relevant to their respective agriculture and price policies. Recently, we had meetings with Canada to see if a wheat agreement could be reached. Is there any chance that this current organization could become like a wheat cartel that would offset the Arab OPEC cartel, or is that too farfetched to think that we could somewhere down the road develop into that?

Mr. CALINGAERT. I don't think this is something that is in the realm of the possible. I think certainly the case of grain is far different from that of oil.

If we were to want to engage in some sort of cartel, it would certainly mean a very marked change in our marketing system, and replacing the free market system with very strong measures of Government control and all that that entails. I think it would be quite contrary to the free market philosophy we have, and there would be a real question whether it would be more efficient. Indeed, it is far more likely that it would be less efficient.

More importantly, Mr. Chairman, it is hard to conceive of a circumstance where such an effort could really be successful. We are talking about a renewable commodity with a large number of producers, and to the extent that action were taken artificially to raise prices, it implies that some country or countries are holding supplies off the market, and that the exporting countries will cooperate.

I think a case in point is instructive, and that was in 1968–69 when we had the International Grains Arrangement, and the exporting countries found that the price range they were trying to defend was higher than what the market dictated. It simply did not work.

Senator PRESSLER. As funding for the Public Law 480 program seems to be steadily decreasing and food prices are increasing, is there any risk that over the next 2 years we might find ourselves unable to meet our minimal requirements at the Food Aid Convention?

Mr. CALINGAERT. For the current fiscal year, the funding will provide for somewhat over 5 million tons of food aid, so that it will certainly be over our pledge. For the next couple of years, I don't think that that would be a problem.

Senator PRESSLER. Occasionally, the hope has been expressed that some capital surplus countries might be willing to purchase grain commercially to provide food aid of their own to poor countries. The OPEC countries, obviously, come to mind.

Have any such countries indicated any interest in such a scheme?

Mr. CALINGAERT. Some of that is taking place. Japan is a member of the Food Aid Convention and they do make purchases to fulfill at least part of their commitments under it.

OPEC has become involved in the food aid effort. I think the best, example is the International Fund for Agricultural Development where they have a 43-percent share of the amount.

Also some of the OPEC countries are contributors to the world food program. Saudi Arabia is the largest. At the last session of the program the OPEC special fund had made a pledge of $25 million for purchasing food in developing countries for the needy developing countries.

Senator PRESSLER. Concern is often expressed that food aid often does not get to the neediest in the country because of Government corruption and poor transportation and delivery systems. Would you comment on how effective you feel our program is?

Mr. CALINGAERT. That certainly is a valid concern, and one of which we are very conscious. One way we try to attack that problem is under the title I and title III programs. Some of the projects are geared toward improving the distribution system, and that is going to go part of the way to resolving that problem.

Senator PRESSLER. How useful would you say the International Wheat Council is to our Government and to our private sector?

Mr. MAYER. I think, Mr. Chairman, the ability to get together and to discuss world wheat issues with the major countries is an extremely important item. The Canadians were down here very recently for a conference, and in discussing with them this whole issue, they pointed out that their farmers feel better because their leaders are talking to the other wheat exporting countries and wheat importing countries around the world. That, essentially, is what the Council does, it gives a forum for these discussions.

Senator PRESSLER. Where are these meetings held, and describe these meetings to me?

Mr. MAYER. They are held in London twice a year, either in November or December, or in June or July. In fact, the winter meeting is being held next week.

Senator PRESSLER. Are their proceedings printed? Are the results printed up, or not necessarily?

Mr. MAYER. No, not necessarily. They do publish a report on the world wheat situation, but not particularly on the meetings.

Senator PRESSLER. I see.

Mr. CALINGAERT. I might say that much of the discussion in the recent years has been on the possibility of negotiating a new agreement and what kind of form that should take, but also a great deal of discussion on the world market and forecasting.

Senator PRESSLER. I have no further questions. We may have some further questions for the record.

I do have a statement on behalf of the National Farmers Union which I would like to make a part of the record at this point.

[Legislative memorandum of the National Farmers Union follows:]

LEGISLATIVE MEMORANDUM

To: Members of the Committee on Foreign Relations, United States Senate.
From: Robert J. Mullins, Director of Legislative Services.
Re: Executive 97-9—Protocols for the Extension of the International Wheat Agreement.

Although for ten years the International Wheat Agreement of 1971 has been relatively meaningless as a measure for stabilizing and enhancing the returns of wheat producers around the world, a two-year extension still has some value in the opinion of the National Farmers Union for these reasons:

1. The International Wheat Council will continue to collect, analyze and disseminate data on the international wheat situation, particularly regarding supply, demand, trade and prices;

2. The International Wheat Council will continue as a forum in which consultations can continue on international cooperation in wheat trade and pricing matters;

3. The extension of the Food Aid Convention of 1980, maintaining commitments for food aid to developing nations, is desirable and necessary in the view of widespread hunger and malnutrition in the world.

We find it regrettable that negotiations for a new alternative approach to a Wheat Trade Convention faltered last November and that subsequent talks showed so little promise that it was necessary on March 6, 1981, to propose a two-year extension of the existing pact through June 30th, 1983.

We also find it regrettable that the negative attitude of the U.S. delegation at the International Wheat Council conference at Madrid in June, 1981 largely destroyed hopes for further progress.

In substance, the U.S. position declared:

"The United States believes that individual country reserve systems which operate in response to price signals from the world wheat market, releasing reserves when the supply is short and holding reserves when the supplies are plentiful, are preferable to internationally-coordinated programs presently under discussion.

"The United States recommends that other nations begin now to establish their own reserve programs, instead of waiting for a new wheat trade agreement or actions by other international organizations.

"In principle, we are opposed to international agreements that would allocate world production or trade or substitute for the workings of the market."

In the Farmers Union, we regard such a policy stance short-sighted, unrealistic and damaging for these reasons:

It fails to understand that there is no true free market in world trade, that the existing system, dominated and manipulated by the multinational grain giants, works badly for both producers and consumers of the world;

It completely overlooks the fact that in the International Wheat Agreements which were in force from 1949 continuously to 1967, the United States tripled its volume of wheat exports and doubled its share of world wheat trade;

It ignores the truth that while the agreements from 1949 through 1967 did make the market system work more fairly for producers, consumers and industry, the system did not displace the market system;

It rudely brushes aside the ready willingness of exporting and importing nations to discuss rational, cooperative measures for stabilization of wheat production and trade; and finally.

It consigns the U.S. wheat industry to be a residual supplier in a demoralized world market.

Although the protocols in Executive 97–9 extend the current agreement through June 30, 1983, there is no reason why talks aimed at a new wheat agreement with economic provisions should not be pressed. A new agreement could become effective as soon as negotiated and ratified.

We therefore recommend that the Foreign Relations Committee, in recommending the approval of Executive 97–9, also approve an accompanying resolution encouraging and directing the Administration to exert leadership in working towards an effective new agreement designed to assure remunerative returns to grain producers here and elsewhere and to assure needed supplies to industries and consumers.

Senator PRESSLER. May I ask a question from the Farmers Union testimony here. They say:

We find it regrettable that negotiations for a new alternative approach to a Wheat Trade Convention faltered last November and that subsequent talks show so little promise that it was necessary on March 6, 1981, to propose a 2-year extension to the existing pact through June 30, 1983.

We also find it regrettable that the negative attitude of the U.S. delegation at the International Wheat Council Conference at Madrid in June 1981, largely destroyed hopes for further progress.

In substance, the U.S. position declared:

That the United States believes that the individual country reserved systems which operate in response to price signals from the world wheat market, releasing reserves when the supply is short and holding reserves when the supplies are plentiful, are preferable internationally-coordinated programs presently under discussion.

The United States recommends that other nations begin now to establish their own reserve programs, instead of waiting for a new wheat trade agreement or actions by other international organizations.

In Principle, we are opposed to international agreements that would allocate world production or trade or substitute for the workings of the market.

In the Farmers Union, we regard such a policy stance shortsighted, unrealistic and damaging for these reasons:

It fails to understand that there is no true free market in world trade, that the existing system, dominated and manipulated by the multinational grain giants, works badly for both producers and consumers of the world.

It completely overlooks the fact that in the International Wheat Agreements which were in force from 1949 continuously to 1967, the United States tripled its volume of wheat exports and doubled it share of world wheat trade;

It ignores the truth that while the agreements from 1949 through 1967 did make the market system work more fairly for producers, consumers, and industry, the system did not displace the market system;

It rudely brushes aside the ready willingness of exporting and importing nations to discuss rational, cooperative measures for stabilization of wheat production and trade; and finally

It consigns the U.S. wheat industry to be a residual supplier in a demoralized world market.

Do either of you want to make a comment on the Farmers Union's comments?

Mr. MAYER. Mr. Chairman, I think they have a view of how they would organize the world wheat market system. This administration does not necessarily agree with that particular view. We have tried the organizational technique of the 1968 agreement, and it was shown not to work very well. We have no reason to believe that it would work any better today.

I would only say that what we think would help stabilize the world market even more would be for countries which are at the present time shut out from exports during periods of surpluses, or shut up during periods of scarcity, that opening up those markets and sharing both in the periods of scarcity and surplus would be a better stabilizer.

I speak here particularly of the European Community, which has very rigid restraints. If they were to open up that market, as well as Japan, and some of the other countries, this would provide more stabilization, we think, than a new more intensive agreement.

Senator PRESSLER. Thank you very much for your testimony. If staff has additional questions, I will present them to you. We thank you for coming here on a day when the Government is in business.

Now we would like to welcome to the committee Mr. Carl Schwensen, executive vice president of the National Association of Wheat Growers, and Mr. Richard Gilmore, Gilmore International Consultants.

I would like to welcome you to the committee, and you may make any comments you wish, or comments on any questions or other things that you may have heard that you wish to express yourself on.

I have no preference as to who speaks first, but Mr. Schwensen, your name is on the list first, so we will call on you.

STATEMENT OF CARL F. SCHWENSEN, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, WASHINGTON, D.C.

Mr. SCHWENSEN. We have a letter to submit for the committee's record with regard to the protocols for the extension of International Wheat Agreement. I would like to summarize basically what our position is.

We strongly support the continuation of U.S. participation in the International Wheat Agreement, and Senate ratification of the Protocols for the Food Aid Convention and the Wheat Trade Conventions, which make up this agreement.

We believe that the International Wheat Council has a very important function which was referred to by previous witnesses, and we think that regular contact between representatives of importer and exporter governments does a great deal to remove suspicion about the operation of various domestic and export programs, and also can do a great deal toward promoting future cooperation among wheat importing and exporting nations.

With regard to the subject of reserves, we closely followed the efforts in 1978 and 1979 to develop a new international agreement which incorporated an international system of nationally held grain reserves with price corridors and various triggering mechanisms.

The Carter administration kept the producers closely informed as to the progress of those negotiations. They failed. We were, in fact, pleased to see that they ended without conclusion because we were concerned at the lack of cooperation we were seeing toward the end of those negotiations on the part of other exporting governments.

We feel that now is the time to encourage other nations to match U.S. initiatives which have been taken over the last 4 years in establishing a foreign grain reserve, isolating that grain from the market to meet future food aid needs by developing nations, and developing a system to promote orderly marketing, and thereby avoiding thrust of excess supply onto the world market and depressing prices.

Trade agreements represent the negotiated interests of both exporting and importing nations, and we feel that it is important that these two conventions continue to operate concurrently—the Wheat Aid Convention and the Food Aid Convention.

We urge your committee to report favorably these protocols, and we urge the Senate to ratify the same documents.

Thank you, Mr. Chairman.

[Letter from the National Association of Wheat Growers follows:]

NATIONAL ASSOCIATION OF WHEAT GROWERS,
Washington, D.C., November 24, 1981.

Hon. CHARLES H. PERCY,
Chairman, Committee on Foreign Relations,
U.S. Senate,
Washington, D.C.

DEAR CHAIRMAN PERCY: The National Association of Wheat Growers supports Senate ratification of protocol for the sixth extension of the Wheat Trades Convention of 1971 and the first extension of the Food Aid Convention of 1980. The two conventions comprise the International Wheat Agreement of 1971.

The International Wheat Council, which administers the current International Wheat Agreement, has proven to be a useful forum for discussions among countries concerned with wheat trade matters, and the 1971 Agreement has provided the necessary framework for the operation of the Council. It is in the interest of U.S. wheat growers to maintain the reporting and consultation structure established by this Agreement.

The International Wheat Council held its Ninety-second Session in March 1981, and it concluded that a wide range of difficulties made it impossible to bring a new agreement into effect when the existing one expired on June 30, 1981. Accordingly, the Council decided that its only option was to extend the Wheat Trade Convention for two more years to June 30, 1983, while recognizing that any successor agreement could be brought into effect before the expiration of the extensions.

It was also agreed that the Food Aid Convention of 1980 should be extended for two more years until June 30, 1983. The objective of this convention is to achieve the World Food Conference target of at least 10 million tons of food aid annually to developing countries through a joint international effort.

International wheat agreements represent the negotiated interests of both exporting and importing nations, and this balance can best be maintained through the parallel operation of the two conventions. We therefore strongly support the extension of the Wheat Trade and Food Aid Conventions for a period of two years which will provide for their concurrent operation.

We appreciate this opportunity to present our views to the Committee on Foreign Relations, and we look forward to Senate ratification of the protocols extending the International Wheat Agreement.

Sincerely,

CARL F. SCHWENSEN,
Executive Vice President.

Senator PRESSLER. Thank you, Mr. Schwensen. Mr. Gilmore.

STATEMENT OF RICHARD GILMORE, PRESIDENT, GILMORE INTERNATIONAL CONSULTING, WASHINGTON, D.C.

Mr. GILMORE. Thank you, Mr. Chairman.

I want to express my appreciation for this opportunity to concur with the other witnesses today in supporting at a minimum the ratification of the International Wheat Agreement.

My position as an observer in this field and head of a firm that specializes in agriculture trade and agribusiness investment is that the renewal of the WTC and Food Aid Convention is merited on an assessment of its usefulness to date, and an appraisal of future events in the absence of U.S. adherence to this agreement.

In my estimation it is the latter point that is the most convincing justification for the U.S. continued membership and active participation in the International Wheat Council. I might add that I do sympathize with the NFU position in terms of some of the critical comments it made about the United States regarding previous initiatives.

Were the United States to refuse membership at this time, the risk is that exporters and importers alike would interpret this action as an indication of a radical shift in U.S. agricultural export policies, away from international cooperation regarding commercial wheat and food aid transfers.

This position would contradict official policy to date, which decries violations of ground rules for trade and food aid accepted by both exporting and importing signatories to the International Wheat Agreement.

At this time, when wheat is in surplus, and consequently prices hover around U.S. trigger levels, which are below all other suppliers' domestic prices, such action could trigger a trade war. Stated plainly the Senate's rejection of the International Wheat Agreement would be throwing the baby out with the bathwater.

The International Wheat Agreement is not a commodity agreement like tin or sugar, both of which are supported by the United States notwithstanding their inherent violation of free trade principles. The International Wheat Agreement offers under the auspices of the Wheat Council an information gathering body and forum for discussions relating to wheat production and distribution worldwide.

Efforts to strengthen the agreement have failed singularly so that we are faced with the present irony that the chief argument in favor of renewing the agreement may be the fact that the International Wheat Council is relatively powerless.

At the moment the Council does not administer any reserve system nor price enforcement mechanism in deference to U.S. opposition to such initiatives. It does, however, facilitate the expansion of international trade in wheat and wheat flour under terms that are compatible with the shared interests of importers and exporters alike. In short, the current agreement does little harm and could do a lot more good in the future.

I think the point concerning the potential role of the Wheat Council is, perhaps, the most noteworthy of all arguments in favor of its retention and support.

In the summary statement of the cochairman of the Cancun meeting on cooperation and development issued on October 23 of this year, it is stated that one of the prerequisite steps necessary to achieve global food security and agricultural development is the negotiation of a new international grains agreement.

The Wheat Council is, in my estimation, ideally suited as a forum to handle any such negotiations because of its specialized character and its information resources. In fact, developing countries recognized this in 1974 when UNCTAD directed that grains be handled separately from other commodity negotiations within the framework of the Council.

Nothing has so radically changed in terms of different international organizations since then to warrant the support of another institution in lieu of the Council. Moreover, the Council is the very kind of instrument that responds to the Reagan administration's concern that negotiations on the broad range of North-South issues not be mired down in an overly generalized debate.

In the absence of a more comprehensive agreement on grains the Wheat Council still will remain a body that very much serves the interests of the United States. It complements the U.S. effort to reduce trade barriers and encourage governments to rationalize their agricultural production.

With U.S. support it could have a far more significant impact on the orderly promotion of world trade in wheat. Under present circumstances, however, its demise would receive more attention than its existence has in recent years.

[Mr. Gilmore's prepared statement follows:]

PREPARED STATEMENT OF RICHARD GILMORE

Mr. Chairman and Honorable Members of the Senate Committee on Foreign Relations, I appreciate this opportunity to testify in support of the renewal of the International Wheat Agreement of 1971. My name is Richard Gilmore and I am the president of Gilmore International Consulting, a firm that specializes in the analysis of agricultural trade and agribusiness investment issues.

I am also the author of a book entitled "A Poor Harvest: The Conflict of Policies and Interests in the Grain Trade," which is scheduled for publication by the end of March 1982.

It is my hope that I can provide the members of this subcommittee with assistance in their review of the Wheat Agreement now under consideration. My position in support of renewal of the IWA is based on an assessment of its usefulness to date and an appraisal of future events in the absence of U.S. adherence to this agreement. In my estimation it is the latter point that is the most convincing justification for the United States' continued membership and active participation in the International Wheat Council, the official secretariat of the Agreement itself. Were the United States to refuse membership at this time, the risk is that exporters and importers alike would interpret this action as an indication of a radical shift in U.S. agricultural export policies away from international cooperation regarding commercial wheat and food aid transfers. This position would contradict official policy to date, which decries violations of groundrules for trade and food aid accepted by both exporting and importing signatories to the IWA. At this time when wheat is in surplus, and consequently prices hover around U.S. target levels—which are below all other suppliers' domestic prices—such action could trigger a trade war. Stated plainly, the Senate's rejection of the IWA would be throwing the baby out with the bath water.

The IWA is not a commodity agreement like tin or sugar, both of which are supported by the United States notwithstanding their inherent violation of free trade principles. The IWA offers under the auspices of the Wheat Council an information gathering body and forum for discussion of issues relating to

wheat production and distribution worldwide. Efforts to strengthen the agreement have failed singularly so that we are faced with the present irony that the chief argument in favor of renewing the agreement may be the fact that the International Wheat Council is relatively powerless. At the moment the Council does not administer any reserve system nor price enforcement mechanism in deference to U.S. opposition to such initiatives. It does, however, facilitate the expansion of international trade in wheat and wheat flour under terms that are compatible with the shared interests of importers and exporters alike. In short, the current agreement does little harm and could do a lot more good in the future.

I think the point concerning the potential role of the Wheat Council is, perhaps, the most noteworthy of all the arguments in favor of its retention and support. In the summary statement of the co-chairman of the Cancun meeting an Cooperation and Development issued on October 23 this year, it is stated that one of the pre-requisite steps necessary to achieve global food security and agricultural development is the negotiation of a new international grain agreement. The Wheat Council is, in my estimation, ideally suited as a forum to handle any such negotiations because of its specialized character and its information resources. In fact, developing countries recognized this in 1974 when UNCTAD directed that grains be handled separately from other commodity negotiations within the framework of the Council. Nothing has so radically changed in terms of different international organizations since then to warrant the support of another institution in lieu of the Council. Moreover, the Council is the very kind of instrument that responds to the Reagan administration's concern that negotiations on the broad range of North-South issues not be mired down in an overly generalized debate.

In the absence of a more comprehensive agreement on grains the Wheat Council still will remain a body that very much serves the interests of the United States. It complements the U.S. effort to reduce trade barriers and encourage governments to rationalize their agricultural production. With U.S. support it could have a far more significant impact in the orderly promotion of world trade in wheat. Under present circumstances, however, its demise would receive more attention than its existence has in recent years.

Senator PRESSLER. I have felt that way sometimes. I have been struggling to come up with a way that we could have an international grain agreement, where we would not be selling grain below the cost of production abroad, where we could offset some of the cartels that are used against us. But I guess we have a tradition of being very generous in our food aid and our food sales.

Why do you think we are so hesitant, as a country, to enter into a tougher minded wheat export policy, or enter into cartels, or whatever?

Mr. GILMORE. In answering that question, I want to distinguish an exporters' cartel from the present form of the International Wheat Agreement. It does not have those powers, nor does it really have those objectives.

Respecting some kind of exporter arrangement, such as you suggest I think it is extremely difficult given the incompatibility of the marketing systems, and inevitably I have found that, given the variations in supply, it is extraordinarily difficult to get competing suppliers to adhere to a uniform export strategy.

That is a function of their production controls, their storage capabilities, and their domestic pricing system, which inevitably presses upon some countries, such as Argentina, more than others, to export their immediate production, albeit at prices below a fair return to the farmer. So you do have competing national objectives which make any kind of exporter coalition extraordinarily difficult in terms of enforcement.

The idea itself is not necessarily, in the abstract, incompatible with importers' objectives, if, in the process, one achieves relative price

stabilization. Characteristic of our markets, particularly in the last decade, has been the wide price swings and variations in available supplies that were not characteristic of the markets prior to that. This inevitably, because of leads and lags in the United States, has hurt the farmer more than intermediaries. As a result, I think importers as well as American producers would appreciate that kind of a stabilization, albeit at higher prices.

Senator PRESSLER. Mr. Schwensen, the European Economic Community through their export subsidy program has been able to increase wheat exports and increase production. In 1978, your organization filed a section 301 complaint with the Office of the Special Trade Representative. What were the results of this action, and what future actions could be taken to reduce or eliminate these unfair trade policies?

Mr. SCHWENSEN. The result of that action was a bilateral agreement between the previous administration and the European Community to refrain from subsidizing shipments of wheat into the Southern Hemisphere in competition with the United States in traditional markets.

Subsequent to that, the Community has once again reopened its export subsidy program, and there have been incidents of sales to this region, and sales to other regions in competition with the United States aimed at reducing our share of those markets.

The Reagan administration has taken a very firm line, as we have seen it, with regard to the European Community's trade practices, and we see that a chorus has formed within this administration in opposition to the disruptive trade policies of the Community. We strongly support this.

A related organization of ours, U.S. Wheat Associates is closely monitoring European Community wheat trade with a view toward filing, perhaps, a new section 301 complaint under the Trade Act.

Senator PRESSLER. We often hear people advocate the use of the U.S. food weapon to influence other countries. Wheat growers generally argue that such a political use of our wheat export policy would hurt U.S. farmers more than the intended victims of the weapon.

In light of our experience with the most recent Soviet grain embargo, what is the administration thinking with respect to withholding shipments of U.S. wheat in other situations, such as Libya. This would be for administration witnesses, I guess, more so, but what would your reaction to that be?

Mr. SCHWENSEN. Our view has been that the use of food as a political weapon has not been a successful policy in the past.

Also with regard to exporter cooperation, the most recent attempt at that was the chain of embargo cooperation that was sought by the Carter administration following the January 1980 embargo. We saw those chains one by one snap with the United States being the only nation that was effectively withholding sales to the Soviet Union. In doing so, other nations captured an increasing share of the Soviet market from the United States, and expanded their production to maintain that share of the market.

So overall we are in disagreement with policies which aim to use U.S. wheat or U.S. food commodities as a club in international trade.

It is a question of whether it would operate in such a way as to leave a knot on anyone's head.

Mr. GILMORE. I concur completely with that. I have taken that position in some of my articles. But I would add that I am not sure that the United States really does have a food weapon in the negative sense, that is in effectively withholding supplies from the market on a unilateral basis, particularly if it is not a universal embargo but selectively targeted for one specific country, to wit: the 1980 embargo.

So in the negative sense, I am not sure that this so-called food weapon is not something that backfires on us.

Senator PRESSLER. Thank you very much. I appreciate your taking the time to come and testify. I want to thank staff for organizing this hearing, and we will be moving forward on these conventions on December 8.

With that, I will conclude this hearing.

[Whereupon, at 3:10 p.m., the committee adjourned, subject to call of the Chair.]

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